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FROM THE OFFICE OF THE SUPERINTENDENT OF
FINANCIAL INSTITUTIONS CANADA (OSFI)

Pillar

Julie Dickson on What Makes Regulation Effective

The following is an excerpt from April 18 remarks to the American Bar Association, 2009 Spring Meeting, in Vancouver, British Columbia

The situation in the global financial sector calls for some bold new initiatives – initiatives that have been set out by the G-20, the Basel Committee and the Financial Stability Forum (FSF).

These are important discussions, in which Canada has played a central part. It has been agreed that regulators need to develop a better capital framework, we need enhanced oversight over liquidity, we need to deal with incentives and compensation systems that reward socially unacceptable levels of risk taking, and we need to shine more light onto unregulated parts of the financial system. These are all noble, and necessary, aims.

The G-20 also recommends that, as a supplement to their core mandates, the mandates of all national financial regulators, central banks, and other international financial bodies and standard setters (IASB, BCBS, IAIS and IOSCO)

should take account of financial stability.

Inclusion of financial stability is a natural evolution of the original OSFI mandate of solvency regulation; you cannot have strong system stability if you have weak banks and weak regulation and supervision. A strong financial system is made up of strong banks, with a strong and independent regulator. The new mandate would also have us contribute to, and be informed by, a broader discussion about the whole system.



OSFI Superintendent
Julie Dickson

OSFI already works cooperatively with other federal financial authorities, including the Bank of Canada, the Department of Finance, among others. This has been a strength of our system, and will continue.

(cont'd page 2)

OSFI Releases its Latest 3-Year Plan

The Office of the Superintendent of Financial Institutions has posted its Plan and Priorities for 2009-2012. As the core document for the annual planning cycle, the Plan describes OSFI's priorities for the three-year period and outlines the key challenges and risks it faces.

OSFI's long-term business priority remains focused on identifying and addressing emerging risks to Canada's financial system and the federally regulated financial institutions and private pension plans it supervises.

For the full plan text, visit the OSFI web site at www.osfi-bsif.gc.ca

OSFI Priorities at-a-Glance 2009 — 2012

- Enhanced Identification of Emerging Risks
- Institutional and Market Resilience
- Capital Adequacy
- Addressing Internal Risks
- International Financial Reporting Standards (IFRS)

Dickson: Stability of the Canadian Financial System... (cont'd from page 1)

I was pleased to see the G-20 say that a system-wide view is a supplement to sound micro-prudential regulation – not a replacement. Some have said that bank supervisors paid too much attention to individual banks and not enough attention to the system. I reject the notion that too much attention was focused on individual banks. If that were true, we would not have so many global banks on life support. Sound micro-prudential regulation is key, as you cannot take your eye off risks that individual banks are taking.

This demonstrates that while we strike out into bold new directions, we cannot lose sight of some of the more fundamental elements that are critical to effective regulation. Mastering the fundamentals is an ongoing process, and if you do not get them right, there is a large risk that your effectiveness as a regulator will continue to be a challenge.

To view complete remarks, visit the OSFI web site at: www.osfi-bsif.gc.ca

OSFI Specification 2009-1 on Asset Values used in Pension Plan Solvency Valuations

Further to the announcement contained in the January 27, 2009 Federal Budget, OSFI is specifying rules on asset smoothing for solvency valuations. The Specification of the Superintendent sets out the rules that apply.

Smoothing of assets up to 110% of market value is permitted in actuarial reports with effective dates of November 1, 2008 or later. Smoothing of assets up to 115% of market value is permitted on a temporary basis only for actuarial reports that are prepared in accordance with and for the purposes of the solvency funding relief regulations announced by the federal government in November 2008.

These regulations have not yet been issued. As announced in the Federal Budget, the government will make the amount of any deferral of funding that results from the use of an asset value in excess of 110% of market value subject to a deemed trust.

The Instruction Guide on the Preparation of Actuarial Reports for Defined Benefit Pension Plans will provide further detailed guidance on asset valuations. Questions on this topic can be addressed to Jean-Claude Primeau, Director, Actuarial, Policy and Approvals at jean-claude.primeau@osfi-bsif.gc.ca.

To view complete documents for the above item, visit the OSFI web site at: www.osfi-bsif.gc.ca

OSFI Releases Estimated Solvency Ratio (ESR) for Federally Regulated Private Pension Plans

On Thursday, April 16, 2009, OSFI made public the results of its latest solvency testing of federally regulated private pension plans. The results show that the average estimated solvency ratio of federally regulated defined benefit private pension plans at December 31, 2008 was 0.85, a decrease from 0.98 as reported in June 2008.

"The deterioration in funded status was due primarily to a decrease in the value of pension plan assets, reflecting losses on equity investments," said Superintendent Julie Dickson. "Slightly higher interest rates had a small positive impact, as higher interest rates have the effect of lowering pension plan liabilities."

In a December 2008 letter to administrators of federally regulated pension plans on the implications of market conditions on defined benefit plans, OSFI noted that pension plan sponsors and administrators need to be prepared for the effects of the current market downturn. The letter also noted that they should continue to consider a range of longer-term scenarios, including the possibility of protracted market weakness, and think about possible responses that are consistent with their risk tolerance.

"OSFI continues to encourage plan administrators and sponsors to use scenario testing as a risk management tool," stated Ms. Dickson. The private pension plans subject to OSFI regulation currently represent seven per cent of all private pension plans in Canada, accounting for approximately 12 per cent of pension assets.

To view the complete news release, visit the OSFI web site at: www.osfi-bsif.gc.ca

Revised Guideline B-10 on Outsourcing of Business Activities, Functions and Processes

OSFI has released a final, revised version of Guideline B-10, Outsourcing of Business Activities, Functions and Processes, which sets out OSFI's expectations for federally regulated entities (FREs) that outsource or contemplate the outsourcing of one or more of their business activities to a service provider.

On April 20, 2007, as a result of the coming into force of Bill C-37, a federally regulated entity no longer needs to obtain the approval of the Superintendent to maintain and process outside Canada information or data relating to the preparation and maintenance of certain corporate, accounting and customer records.

The revisions to Guideline B-10 primarily reflect the repeal of this approval requirement, or are otherwise designed to clarify OSFI's expectations.

OSFI does not expect that the revised Guideline will necessitate changes to existing contracts that a FRE has in place with service providers, or substantive amendments to policies and procedures. As such, no new transition period is suggested for compliance with the revised Guideline. This version of the Guideline supersedes the December 2003 Guideline.

Questions with respect to the Guideline should be addressed to Emiel van der Velden at emieli.vandervelden@osfi-bsif.gc.ca.

To view the complete documents, visit the OSFI web site at: www.osfi-bsif.gc.ca

OSFI Welcomes Janet Harris-Campbell as New CIO

On April 14, 2009, Janet Harris-Campbell joined OSFI as Chief Information Officer (CIO), a newly created position, within the Projects and IM/IT Services Division in Ottawa.

In this role, Janet is responsible for providing the authoritative IM/IT and project management leadership necessary to help OSFI achieve its business goals while maximizing its investment in information management and technology.

Janet joined OSFI from the City of Ottawa where she had been CIO & Director, Information Technology Services since 2004, in which capacity she was responsible for the strategic management and centralized delivery of IM/IT services for 10,000 clients in 250 locations. Prior to this appointment she led the city's Project Management Office and Information Management function.



Janet holds a Master of Education degree from the University of Ottawa and a Bachelor of Arts degree from Carleton.

Upcoming OSFI Events

May

- The OSFI AML/ATF Session 2009 will take place at the Metro Toronto Convention Centre on May 6th.
- Superintendent Julie Dickson will speak at the Financial Services Forum, in Cambridge, Ontario on May 7th.
- Superintendent Julie Dickson will speak at the Asian Banker Summit 2009, in Beijing, China on May 12th.

June

- OSFI Risk Management Seminar for Life Insurance Companies will take place at the Royal York Hotel in Toronto, on June 9th.
- Superintendent Julie Dickson will speak at INSOL 2009, in Vancouver, British Columbia, on June 21st.

Capital Treatment of Reverse Mortgages

OSFI has issued a draft advisory that sets out its view on the capital treatment of reverse mortgages. The advisory will amend its Guidelines A and A-1, Capital Adequacy Requirements (CAR) Banks/T&L.

OSFI was asked to express a view on the capital treatment that would apply to reverse mortgages held by a federally regulated deposit taking institution.

Reverse mortgages more closely resemble investments in real estate than they do residential mortgages as defined in the Basel Framework. Reverse mortgages are limited recourse loans—the lender looks solely to the residential property securing the loan for repayment of principal, accrued interest and costs. Assuming there is no event of default, the amount recovered on a reverse mortgage is capped at the fair market value of the home at the time it is sold and the lender has no recourse to the borrower for any shortfalls.

In contrast, a residential mortgage is, first of all, an exposure to an individual person secured by recourse to a residential property. The lender has recourse to the borrower for any shortfalls or deficiencies in property value. Nevertheless, under appropriately conservative conditions, a large number of reverse mortgages should be able to qualify for the 35% qualifying residential mortgage risk weight under the Standardized Approach.

OSFI is proposing that only the Standardized Approach be made available for this type of lending, which is consistent with the treatment observed in other Basel member countries.

To view the advisory and letter, visit the OSFI web site at: www.osfi-bsif.gc.ca

What's New Online (www.osfi-bsif.gc.ca)

Annual Disclosures (D-1, D-1A, and D-1B) and Derivatives Disclosures (D-6) Guidelines.

OSFI has issued the final version of these Guidelines. Questions concerning the guidelines should be addressed to Karen Stothers, Managing Director, Accounting Policy Division at karen.stothers@osfi-bsif.gc.ca.

Tabling of OSFI's 2009-10 Report on Plans and Priorities

The President of the Treasury Board has tabled in Parliament OSFI's 2009-2010 Report on Plans and Priorities.

OSFI Launches Secure Web Portal for Electronic Filing

As of February 23rd, Financial Institutions and Appointed Actuaries were able to upload their files for OSFI to a secure web portal in lieu of sending electronic media through the mail or courier. Please direct any questions about the process to the Regulatory Information Division at (613) 990-1889.

The IMF's 2009 Article IV Mission to Canada

An International Monetary Fund (IMF) mission visited Canada between February 23-March 9, 2009 for discussions with government officials and representative of the private sector, as part of the IMF's regular Article IV consultations with its member countries. Visit the IMF's web site for the press release, concluding statement and transcript of a conference call with Mission representatives.

To view complete documents for the above items, visit the OSFI web site at: www.osfi-bsif.gc.ca

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The OSFI *Pillar*

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